Global Communications Limited

Annual Report 1977

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— [illegible] [illegible]. next [illegible]

— 9 mos. [illegible] 31 next [illegible]

— 14,000 $7 a share options —

all owned by
Gekko Ventures Western Ltd.
[illegible]

— 224,839 warrants outstanding

Directors and Officers

Global Communications Limited
81 Barber Greene Road
Don Mills, Ontario M3C 2A2

Directors

*I.H. Asper, Q.C., Chairman of the Board and Chief Executive Officer of CanWest Capital Corporation (Merchant Bankers)
Leonard E. Barlow, Retired Investment Dealer
John S. Elder, Partner, Fraser & Beatty (Barristers & Solicitors)
*Seymour Epstein, P. Eng. Cons., President, Imagineering Limited (Broadcast Consultants)
Claude C. Frenette, Chairman of the Board, Interallied Management and Development Group Ltd. (Management Corporation)
Edward A. Horton, Partner, Fraser & Beatty (Barristers & Solicitors)
*Duncan J. Jessiman, Q.C., Partner, Pitblado & Hoskin (Barristers & Solicitors)
*Paul Morton, President of the Company
John D. Pennal, Associate, Fraser & Beatty (Barristers & Solicitors)
*Gurston I. Rosenfeld, President, Guardian Growth Financial Services Limited — Director, Guardian Capital Group Limited
*Arni C. Thorsteinson, Executive Vice-President, Shelter Corporation of Canada Limited (Real Estate Investor and Property Managers)

Officers

I.H. Asper, Q.C., Chairman of the Board
Seymour Epstein, P. Eng. Cons., Chairman of the Executive Committee
Paul Morton, President
John G. Craig, C.A., Vice-President, Finance and Administration
William R. Cunningham, Vice-President, News and Public Affairs
William A. Stewart, Vice-President, Programming
Peter D. Viner, Vice-President, Marketing
John S. Elder, Secretary
K. Cameron Johnson, C.A., Controller

Auditors
Clarkson, Gordon & Co., Toronto, Ontario

Solicitors
Fraser & Beatty, Toronto, Ontario

Transfer Agents
Guaranty Trust Company of Canada, Toronto, Ontario

Global Communications Limited owns and operates the Global Television Network. Global Communications Limited is a constrained share corporation at least 80% of the shares of which must be beneficially owned by persons who are Canadian citizens or who are corporations controlled in Canada.

*Members of the Executive Committee

Report to the Shareholders

Global Communications Limited

On behalf of your Board of Directors, it is our pleasure to report to you on the affairs of your company for the year ended August 31, 1977 — a year highlighted, as we anticipated in our last report to you, by the first profit that has been achieved since the company began active operations in 1973.

It is appropriate at this time to express our appreciation to those of you who invested in Global both originally and in 1974 as part of the company's reorganization. Without the confidence and financial support which was received at those times from our staff, our bankers, our suppliers, our shareholders and directors, the turnaround of Global would have been impossible.

Financial Highlights

For the year ended August 31, 1977 revenue increased by 43% to $22,084,166. Expenses increased during the same time period by approximately 27% to $19,058,673. After allowing for interest on the Series A and 1974 Income Debentures and provision for income tax, net income before extraordinary items was $412,924. During the year extraordinary gains were realized as a result of the repurchase of some of the company's 10% subordinated debentures and non-interest bearing subordinated notes which, net of a provision for income debenture interest, provided an additional $316,468 of income to the company. Our income tax recovery as a result of prior period losses amounted to $1,542,000. The effective result is net income of $2,271,392 as compared to a loss of $838,863 a year ago.

The company's banking arrangements were strengthened during the year and at August 31, 1977 the company had unused bank lines comprising $3,000,000 of long term loan availabilities and $3,000,000 of operating loan availabilities. As a result of earning our first profit, the remaining unsecured creditors arising at the time of the 1974 reorganization and refinancing will be repaid in January 1978.

These results are most gratifying to management which believes we have now established a stable base upon which to build the future earnings which are so vitally necessary and which must be substantial and timely enough to efficiently utilize our large tax loss. The company still carries a heavy debt structure and a deficit in excess of $19,000,000.

For the first quarter of 1978 advertising bookings have remained strong and we continue to show progress. However, we do have some concerns for the latter part of the year as a result of uncertainties in the state of the Canadian economy.

Development of Canadian Programming

Your company has been involved in the development either directly or as a catalyst for a number of major Canadian programs. The science series, "What Will They Think of Next" is currently being sold in 15 countries all over the world; the "Second City Review" is being shown not only in Canada, but in over 55 cities in the United States.

The widely circulated program "The $128,000 Question" is being produced at Global in conjunction with Viacom Canada Ltd. The documentary, "Tides of War" received one of five nominations for an International Emmy Award and, while we were not the ultimate recipient of the Award, at this particular time in our development it was most gratifying to have received the nomination. We are currently involved in the production of documentaries on the lives of a number of major world figures in a series called "Lives".

As we advised the Canadian Radio-television and Telecommunications Commission, we are also searching for an economic means of electronic delivery for a new National News Service. There are stations in Western

Canada which would like to receive this service, but delivery costs so far have proven to be the insurmountable problem. This problem is further compounded by the recent Cabinet decision allowing for the merger of Telesat Canada and Trans Canada Telephone System. This has created an effective monopoly and it removes any possibility of competition in the provision of this service. We are still hopeful that some progress will be made on this during the current fiscal year.

Audience Acceptance

The November 1977 BBM and A.C. Nielsen ratings have been published and reflect Global as a stable, more mature network. Our decision to strengthen our daytime programming and to sign-on earlier each day contributed higher overall circulation and viewer acceptance figures.

Our News programming continues to attract significant audiences and combined with a dominant position Monday to Friday from 4 — 6 p.m. and a more attractive prime time schedule, provides us with the solid underpinnings necessary to continue to offer viewers and advertisers a full and stable network service.

Our growth to date has been excellent, but it will become more gradual in the near future. We are confident that through sound management, aggressive program acquisition and flexible scheduling, Global will continue to attract viewers and revenue in Southern Ontario.

Corporate Development

The Executive Committee of Global's Board of Directors has now turned its attention to the establishment of a long-term corporate development plan for the company. The goal of that plan, when adopted by your directors will be pursued as vigorously as possible by management. The plan will have two essential elements; the strengthening of Global from within, and also growth by external acquisitions particularly in the entertainment, communications and leisure-time fields.

As previously reported to you, we made an offer to acquire The Odeon Theatres (Canada) Limited. We had made the decision that at the price we offered, it would have been a most attractive acquisition for Global, but we were not prepared to offer the equivalent of the price for which the company was ultimately sold and our bid was not accepted. It is hoped that other opportunities for acquisitions will be developed.

As part of the desire to provide a National News Service for Canada, we are contemplating filing shortly with the CRTC an application for our previously deferred transmitter at Maxville, Ontario, which was part of the original Global application. A Maxville transmitter would allow our signal to be beamed into the Cornwall area of Ontario and to some parts of Quebec. At the same time we would propose establishing a bureau to provide news from the Province of Quebec. At this particular time in our Country's history we feel that it is vital that there be an increase in the exchange of information throughout all parts of the Country.

In late August, 1977 a serious fire destroyed our Cottam transmitter which services the Windsor, Ontario area. We were adequately insured against this loss. The company is actively pursuing the technical rebuilding of the transmitter site and also working with the CRTC on practical solutions to the problem which has for some time meant that Windsor area viewers have been prohibited from receiving much of Global's program schedule. This problem results from the fact that when programs are purchased for the Detroit market by American stations, the Canadian city of Windsor is included as part of their licence rights. It is unjust and improper that this should occur, but to date, no satisfactory solution has been found.

Outlook

While we are concerned with the Canadian economy over the next year, we remain optimistic that strong demands for television advertising time will continue, especially in the primary market area served by Global. We therefore forecast further improvement in your company's performance in fiscal 1977/1978.

It is no mere platitude for us to remind our shareholders and security holders that none of the success which we have achieved to date, nor the potential for the future, could be realized without the tremendous co-operation, loyalty and enthusiasm of our entire staff. We all owe them a debt of gratitude, not only for the long hours and hard work, but also the creativity which enabled us, often with limited resources, to be more than competitive with other stations and networks in the market. This was particularly appreciated by us this past year when the change of ownership and management occurred.

We will update and expand upon this report at the Annual Meeting and look forward to your joining us. For those of you unable to attend who live in Global's network coverage area, we will be continuing the precedent which we established last year by televising the meeting live in its entirety commencing at 11:00 a.m., Friday, February 17, 1978.

If anyone unable to attend wishes to address questions to the directors or management, they should be sent to Global at any time prior to the meeting and we will endeavour to answer them at the meeting.

Respectfully submitted on behalf of the Board of Directors

I.H. Asper, Q.C.
Chairman of the Board

P.G. Morton
President

January 11, 1978

Consolidated Balance Sheet

Global Communications Limited (Incorporated under the Canada Corporations Act)

Assets	August 31 1977	August 31 1976
Current:		
Accounts receivable	$ 3,088,680	$ 1,872,807
Film and program rights (note 1)	6,066,618	5,202,450
Prepaid expenses, videotape and other supplies	220,300	125,579
	9,375,598	7,200,836
Non-current portion of film and program rights (note 1)	4,301,954	2,667,345
Fixed, at cost (note 1):		
Land	143,446	143,446
Land improvements	74,066	73,287
Buildings	595,959	595,959
Transmitter, studio, mobile and technical equipment	8,972,236	8,112,039
Vehicles		17,863
Furniture and fixtures	402,562	352,757
Leasehold improvements	1,161,221	1,109,182
	11,349,490	10,404,533
Less accumulated depreciation and amortization	3,375,195	2,392,773
	7,974,295	8,011,760
	$21,651,847	$17,879,941

On behalf of the Board:

I.H. Asper, Director

P.G. Morton, Director

The accompanying notes are an integral part of these financial statements.

Liabilities

	August 31	
	1977	1976
Current:		
Bank indebtedness (note 3)	$ 121,283	$ 2,700,163
Accounts payable and accrued liabilities (note 4 (d))	3,146,667	2,387,021
Provision for interest on 1974 income debentures (note 4 (b))	787,504	
Film and programming contract instalments due within one year	6,718,199	6,199,330
	10,773,653	11,286,514
Long-term (notes 3, 4 and 5):		
Series A Income Debentures	7,000,000	
Term bank loan		2,800,000
Non-current instalments on film and programming contracts	3,241,580	3,128,650
1974 interest debentures due January 15, 1983	7,900,000	7,900,000
1974 income debentures due January 15, 1998	100,000	100,000
Deferred obligation for interest on 1974 income debentures	99,823	
10% subordinated debentures due January 15, 1983	8,335,350	10,125,000
Non-interest bearing subordinated notes		608,587
	26,676,753	24,662,237
Total liabilities	37,450,406	35,948,751
Deficiency in shareholders' equity:		
Capital (note 6) -		
Authorized:		
200,230 voting preferred shares par value 5¢ each		
2,000,000 common shares without par value		
Issued:		
185,230 preferred shares (1976 - 225,000 shares)	9,262	11,250
665,151 common shares (1976 - 665,030 shares)	3,242,063	3,241,216
	3,251,325	3,252,466
Deficit 665,161	(19,049,884)	(21,321,276)
	(15,798,559)	(18,068,810)
	$21,651,847	$17,879,941

Auditors' Report

To the Shareholders of
Global Communications Limited:

We have examined the consolidated balance sheet of Global Communications Limited as at August 31, 1977 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at August 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 10, 1977.

CLARKSON, GORDON & CO.
Chartered Accountants

Consolidated Statement of Income and Deficit

Global Communications Limited

	Year ended August 31 1977	1976
Revenue:		
Air time	$ 19,887,577	$ 14,257,494
Production and other	2,196,589	1,186,925
	22,084,166	15,444,419
Operating expenses:		
Programming, broadcasting and maintenance	11,952,041	8,605,848
Administration, marketing and occupancy	4,680,398	3,909,603
Depreciation and amortization	994,526	960,494
	17,626,965	13,475,945
Interest (before interest on income debentures):		
Operating bank loan	59,137	90,729
Term bank loan	28,072	594,733
1974 interest debentures	817,193	855,379
10% subordinated debentures	520,674	
Other	26,802	35,188
	1,451,878	1,576,029
Less interest income	20,170	3,833
	1,431,708	1,572,196
Total expenses	19,058,673	15,048,141
Income before the following	3,025,493	396,278
Write-down of excess film and program rights (note 1(b))		1,235,141
Income (loss) before the following	3,025,493	(838,863)
Provision for income taxes	1,468,000	
Income (loss) before interest on income debentures and extraordinary items	1,557,493	(838,863)
Interest on income debentures:		
Interest on Series A Income Debentures	400,301	
Provision for interest on 1974 income debentures (note 4(b))	744,268	
	1,144,569	
Income (loss) before extraordinary items	412,924	(838,863)
Extraordinary items:		
Gain on repurchase of 10% subordinated debentures, net of deferred income taxes of $120,000	379,114	
Gain on repurchase of non-interest bearing subordinated notes, net of deferred income taxes of $74,000	80,413	
Provision for interest on 1974 income debentures relating to extraordinary items (note 4(b))	(143,059)	
Income tax recovery arising from utilization of prior period losses	1,542,000	
	1,858,468	
Net income (loss) for the year	2,271,392	(838,863)
Deficit, beginning of year	(21,321,276)	(20,482,413)
Deficit, end of year	$(19,049,884)	$(21,321,276)

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Financial Position

Global Communications Limited

	Year ended August 31 1977	Year ended August 31 1976
Source of funds:		
Operations -		
Income (loss) before extraordinary items	$ 412,924	$ (838,863)
Net charges not resulting in a current outlay of funds:		
Depreciation and amortization of fixed assets	994,526	960,494
Write-down of excess film and program rights		1,235,141
Total funds provided from operations	1,407,450	1,356,772
Recovery of income taxes payable on income before extraordinary items due to application of loss carry forwards of prior years	1,468,000	
Issue of -		
Series A Income Debentures	7,000,000	
Less repayment of term bank loan	(2,800,000)	(2,650,000)
	4,200,000	(2,650,000)
1974 interest debentures		1,000,000
Common shares	847	210
	7,076,297	(293,018)
Application of funds:		
Funds applied (net) in financing non-current film and program rights -		
Reduction in long-term film and programming liabilities	7,070	1,807,371
Increase (decrease) in non-current portion of related rights (in 1976 before above write-down)	1,634,609	(641,746)
	1,641,679	1,165,625
Repurchase of 10% subordinated debentures and related preferred shares	1,292,524	
Repurchase of non-interest bearing subordinated notes, including provision for early repayment of outstanding notes	454,174	
Provision for interest on 1974 income debentures related to extraordinary items ($143,059), less non-current portion thereof ($99,823)	43,236	
Purchase of fixed assets	957,061	258,210
	4,388,674	1,423,835
Increase (decrease) in working capital	2,687,623	(1,716,853)
Working capital deficiency, beginning of year	(4,085,678)	(2,368,825)
Working capital deficiency, end of year (note 3)	$(1,398,055)	$(4,085,678)
Represented by:		
Current assets	$ 9,375,598	$ 7,200,836
Less current liabilities	10,773,653	11,286,514
	$(1,398,055)	$(4,085,678)

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

August 31, 1977

Global Communications Limited

1. Summary of accounting policies

The following summary of accounting policies of Global Communications Limited ("Global") and its subsidiary corporations is set forth to facilitate the understanding of data presented in these consolidated financial statements:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the corporation and of its subsidiaries, all of which are wholly-owned.

(b) Film and program rights

The corporation enters into various contracts to acquire film and programming rights. Liabilities under the contracts, which are generally payable in instalments over periods of up to five years, are reflected in the consolidated balance sheet when the contracts are signed, with the related costs recorded as assets. Such costs are allocated between current and non-current assets based on estimated usage in the succeeding fiscal year; are charged to operations over the anticipated period of broadcast use; and are written off when deemed to be of no value. Costs of films included in film and program rights are written off based on a moving average of total film costs, at a rate of 30% for the first showing, and 25%, 20%, 15%, and 10% for the second to fifth showings respectively.

During the 1976 fiscal year, certain excess film and program rights purchased in earlier years, which were not expected to be utilized before their expiry dates because of changes in the corporation's programming practices, were written down by $1,235,141.

(c) Depreciation and amortization

Depreciation and amortization are provided at rates designed to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Land improvements	5%
Buildings	5%
Transmitter, studio, mobile and technical equipment	7-1/2% — 12-1/2%
Furniture and fixtures	10%
Leasehold improvements	4%

(d) Income taxes

The tax allocation method of providing for income taxes has been followed in these consolidated financial statements. No recognition has been given in the accounts to potential future income tax savings arising from the carry forward of unutilized losses of prior fiscal years (see note 2).

2. Income taxes

At August 31, 1977 losses aggregating approximately $12,780,000 were available to be applied against income of future years, as follows:

Amount available	Available to apply against income earned to August 31
$ 9,040,000	1979
3,190,000	1980
550,000	1981
$12,780,000	

In addition excess capital cost allowances and other timing differences of approximately $4,550,000 were available for carry forward indefinitely.

3. Bank indebtedness

Under the terms of its banking agreement, the corporation may borrow up to $10,000,000 by way of a term loan (none outstanding at August 31, 1977) and up to $3,000,000 by way of an operating loan (none outstanding at August 31, 1977). These loans bear interest at 1-1/2% and 1/2% respectively above the bank's prime lending rate from time to time.

During the year, the corporation's banker agreed to reduce, at any time up to February, 1978, any portion of the above term loan credit, and to provide up to $10,000,000 by way of Secured Income Debentures, Series A (the "Series A Income Debentures") of Global. A total of $7,000,000 of such debentures were issued during the year. Further Series A Income Debentures in excess of $7,000,000 cannot be issued without the approval of Global Ventures Western Ltd.

The Series A Income Debentures, which qualify as "income debentures" under the Income Tax Act (Canada), bear interest at the rate of 2% plus one-half of the bank's prime lending rate, but such interest is payable only to the extent that Global has "cumulative net profit", as defined, in periods after September 1, 1976. The debentures may be prepaid in whole or in part without bonus or other penalty, and are repayable in quarterly principal instalments in the following aggregate annual percentages: year ending August 31, 1979 - 10%; 1980 - 15%; 1981 - 20%; 1982 - 25%; 1983 - 30% (the percentage for 1983 including a final instalment of 7-1/2% due on September 1, 1983).

The bank advances outstanding from time to time are secured by a $15,000,000 demand debenture with a first fixed and floating charge on substantially all of Global's assets.

The agreements with the bank contain various conditions and restrictive covenants, which conditions and restrictive covenants were met by Global as at August 31, 1977, including the requirement that Global maintain working capital, as defined, at certain levels, and maintain its broadcasting licence in good standing, and that Global will not, among other things, without the consent of the bank:

(a) Create additional charges on any of its assets, incur net lease rental obligations (exclusive of the microwave contracts referred to in note 7(a)) in excess of $600,000 per annum, incur any additional funded debt or increase total liabilities beyond agreed upon amounts; or

(b) pay dividends in respect of its capital stock, or reduce its paid-in capital.

4. Debentures and non-interest bearing subordinated notes

(a) 1974 interest debentures due January 15, 1983

The 1974 interest debentures bear interest at the prime bank rate applicable from time to time plus 1.2% and may be prepaid in whole or in part at any time without premium, subject to prior repayment of bank indebtedness.

The 1974 interest debentures are secured by a floating charge on all of Global's assets, subject only to prior claims and security held by Global's bankers and to the claims of ordinary trade creditors (and of certain other creditors designated as such) for liabilities incurred from May 22, 1974 until May 22, 1977, and rank pari passu with $5.80 of each $45.00 (or an aggregate of $1,074,334 at August 31, 1977) of principal amount of the 10% subordinated debentures outstanding from time to time.

The debenture holders have agreed to purchase an additional $1,000,000 of these debentures, as and when required by Global, but no such requirement is presently anticipated.

(b) 1974 income debentures due January 15, 1998

The 1974 income debentures bear interest payable (provided Global's post-tax earnings are sufficient) at rates applied to pre-tax earnings of the immediately preceding fiscal year, which rates reduce annually by 1% from 28% in 1977 to 20% for 1985 and subsequent years. This interest is subordinate to that under the Series A Income Debentures held by the bank (note 3). Such interest, when payable, is due on January 15 of the following year, and bears interest at 10% per annum from the end of the fiscal year until date of payment.

Amounts payable under these debentures for the current fiscal year are as follows:

28% of unconsolidated net income of Global Communications Limited before income taxes and extraordinary items, but after provision for interest on Series A Income Debentures		$744,268
28% of gain on repurchase of non-interest bearing subordinated notes included in extraordinary items		43,236
Total provision for interest on 1974 income debentures included in current liabilities		787,504
20% of capital gain arising from repurchase of 10% subordinated debentures by a subsidiary (to be adjusted on maturity or prior repurchase by the corporation)	43059	99,823
		$887,327

The income debentures are secured by a floating charge on all of Global's assets, subordinate to the 1974 interest debentures and the bank indebtedness.

(c) 10% subordinated debentures due January 15, 1983

The 10% subordinated debentures did not bear interest from January 16, 1974 to January 15, 1977, but after such date interest at 10% per annum is payable semi-annually to maturity.

The 10% debentures carry a floating charge on the assets of Global in Ontario and are subordinate to the interests of the bank and to the 1974 interest and income debentures, except for $5.80 of each $45.00 (or a total of $1,074,334 at August 31, 1977) of principal amount ranking pari passu with the 1974 interest and income debentures. Under a Tender Offer dated August 31, 1976, Global invited tenders of units of one $45.00 par value 10% debenture and one related preferred share (note 6(b)) for purchase by the corporation or one of its subsidiaries at $32.50 per unit. As a result of this offer, a total of 39,770 units were acquired during the year by one of the corporation's subsidiaries with funds (total $1,292,525) advanced by Global through use of its banking facilities. The gain ($499,114) on such repurchase, less related deferred income taxes of $120,000, is reflected as an extraordinary item in the 1977 consolidated statement of income.

(d) Non-interest bearing subordinated notes

During the year, $516,084 principal value of non-interest bearing subordinated notes were repurchased at 70% of the principal amount. The gain ($154,413) on the repurchase less related deferred income taxes of $74,000 is reflected as an extraordinary item in the 1977 consolidated statement of income.

As a result of the payments due on the 1974 income debentures the remaining outstanding notes in the amount of $92,503 are repayable in January, 1978 and are included in accounts payable and accrued liabilities.

5. Instalments of Series A Income Debentures and film and programming contracts

Payments required in each of the next five years to repay the following long-term liabilities outstanding at August 31, 1977 are as follows:

	Year ending August 31				
	1978	1979	1980	1981	1982
Series A Income Debentures		$700,000	$1,050,000	$1,400,000	$1,750,000
Instalments payable on film and programming contracts	$6,718,199	2,410,510	711,820	119,250	
	$6,718,199	$3,110,510	$1,761,820	$1,519,250	$1,750,000

6. Share capital

(a) Restrictions on share transfers

The Board of Directors may make such rules and regulations from time to time as it shall deem necessary or appropriate to enforce the special statutory provisions applicable to constrained share corporations as set forth or referred to in Global's charter. Under the Broadcasting Act (Canada), in effect, 80% of the voting shares of Global and other corporations holding a broadcasting licence must be owned by Canadians.

(b) Voting preferred shares

The voting preferred shares were issued in units with the 10% subordinated debentures and are to be purchased, at par, for cancellation upon the redemption or discharge of the related debentures by the corporation or on purchase by its subsidiaries.

During the year a total of 39,770 voting preferred shares were purchased, at par, for cancellation as a result of the tender offer referred to in note 4(c).

(c) Common shares, share option and warrants

During the year 121 common shares were issued at $7 each, upon the exercise of 121 outstanding share purchase warrants of the corporation.

The corporation has reserved 238,849 authorized but unissued common shares for issuance, as follows:

(i) To the holders of remaining warrants to purchase shares at $7 each, exercisable to January 1, 1983 -	224,849 shares
(ii) On the exercise of an option to purchase shares at $7 each at any time to January 15, 1983 -	14,000 shares

The common shares of the corporation now outstanding and to be issued on exercise of the above option and warrants are subject to deposit under the terms of a Voting Trust and Option Agreement which expires on January 15, 1983.

(d) Earnings per share

	Year ended August 31	
	1977	1976
Basic:		
Income (loss) before extraordinary items	$0.62	$(1.26)
Extraordinary items	2.79	
Net income (loss) for the year	$3.41	$(1.26)

Fully diluted:	1977
Income before extraordinary items	$0.50
Extraordinary items	2.15
Net income for the year	$2.65

Fully diluted earnings per share shows the effect on earnings per share which would result if the outstanding warrants to purchase 224,849 common shares at $7 each and the outstanding option to purchase 14,000 common shares at $7 each were all exercised at the beginning of the year. In the fully diluted earnings per share calculation, the assumption is made that the funds derived from exercising the warrants and the option had been invested to produce an annual return of 10%, before applicable income taxes and interest on income debentures.

No fully diluted earnings per share calculation is provided for 1976 since the result of interest earned on funds invested at the above interest rate, on the exercise of warrants or options, would be anti-dilutive.

7. Commitments and other matters

(a) Lease obligation and other commitments

The corporation's head office, network control centre and production facilities in Metropolitan Toronto have been leased on a net basis for a period of twenty-five years expiring December 31, 1998 (with options to renew for two further five-year periods) at an annual rental of $480,000. The annual rental is to be adjusted by 50% of the cost of living index change in the tenth and the twentieth year of the lease. In addition, the corporation has material annual commitments in the normal course of business in various amounts for periods of up to seven years, under contracts relating to the provision of microwave service, news services, services of individuals, and other services.

(b) Broadcast licence

The corporation carries on its operations under the terms of a broadcast licence. Such licences are issued by the Canadian Radio-television and Telecommunications Commission for periods of up to five years, and are subject to renewal. The corporation's current broadcast licence expires on March 31, 1981.

8. Statutory information

Information with respect to the number of directors and officers of the corporation, and their remuneration is as follows:

	1977		1976	
	Number	$	Number	$
During the year:				
Directors	16	Nil	11	Nil
Officers	11		10	
Officers receiving remuneration	4	$201,252	3	$95,260
As at August 31:				
Directors	11		10	
Officers	9		9	
Number of officers who were also directors during the year	6		4	

The above amount for remuneration does not include amounts paid or payable to corporate entities under management or employment contracts for regular and special services of officers and directors, which amounts aggregated $474,799 in 1977 (1976 - $332,311).

9. Comparative figures

Certain 1976 comparative figures have been reclassified to conform with the method of presentation adopted in 1977.

GLOBAL COMMUNICATIONS LIMITED

Consolidated Statement of Changes in Financial Position

Six Months ended February 28, 1977
(with comparative figures for 1976)

(unaudited)	1977	1976
	(000's)	
SOURCE OF FUNDS:		
Ordinary Operations		
Net income for the period before extraordinary items	$ 272	$ 22
Add:		
Depreciation and amortization	504	478
Deferred income taxes	884	51
Elimination of interest on 1974 income debentures	—	30
	1,660	581
Issue of secured bank income debentures	7,000	—
Less (repayment of) increase in term bank loan	(2,800)	550
	4,200	550
Issue of 1974 income debentures	—	800
Reduction in deposits and other non-current assets	89	—
	5,949	1,931
APPLICATION OF FUNDS:		
Funds applied (net) in financing non-current film and programme liabilities—		
Reduction in long-term film and programming liabilities	1,075	666
Decrease in non-current portion of related rights	(863)	(605)
	212	61
Repurchase of 10% subordinated debentures and preferred shares	1,291	—
Repurchase of non-interest bearing subordinated notes	340	—
Provision for interest on 1974 income debentures related to extraordinary items ($141,000), less non-current portion thereof ($100,000)	41	—
Purchase of fixed assets—net	561	154
	2,445	215
Increase in working capital	3,504	1,716
Working capital deficiency, beginning of period	(4,086)	(2,369)
Working capital deficiency, end of period	$ (582)	$ (653)
Represented by:		
Current assets	$ 7,504	$ 7,998
Less current liabilities	8,086	8,651
	$ (582)	$ (653)

GLOBAL COMMUNICATIONS LIMITED

INTERIM REPORT

Six months ended
FEBRUARY 28, 1977

To the Shareholders:

Your Company continued its progress in the six months ended February 28, 1977. Revenue has increased to $11,323,000 from $7,930,000 or a 43% rise over the same period in the previous year. Income before extraordinary items was $272,000 as against $22,000 for the comparable period of the previous year. Final net income increased to $1,540,000 as compared to $103,000 for the same period in the previous year by the inclusion, in the most recent period, of $954,000 arising from income taxes recovered from the application of prior years' losses, $379,000 from net capital gains arising from the repurchase by the Company of 10% subordinated debentures and $76,000 from net gains arising from its repurchase of non-interest bearing subordinated notes, less a provision for interest on the 1974 income debentures related to these gains of $141,000.

The increase in operating costs of 22% is attributable primarily to substantially higher programming costs in the current period.

On February 22, 1977, the Canadian Radio-television and Telecommunications Commission renewed your Company's broadcasting licence to March 31, 1981. In a decision published on March 15, 1977, the Commission approved the purchase by Global Ventures Western Ltd. and Seymour Epstein of the securities of the Company held by IWC Communications Ltd., and such purchase was completed later that month.

Effective from January 16, 1977, the Company began to accrue the interest obligations on its 10% subordinated debentures.

Time sales bookings continue strong for the balance of the fiscal year and although management continues to expect to report a reasonable profit for the fiscal year ending August 31, 1977, the results for the first six months are traditionally better than those for the last half of the year.

Toronto, Ontario
April 22, 1977

I. H. ASPER
Chairman of the Board

PAUL MORTON
President

GLOBAL COMMUNICATIONS LIMITED
Consolidated Statement of Operations
Six Months ended February 28, 1977
(with comparative figures for 1976)

(unaudited)	1977	1976
	(000's)	
Revenue	$11,323	$ 7,930
Operating expenses:		
Programming, broadcasting and maintenance	6,021	4,511
Administrative, marketing and occupancy	2,365	2,062
Depreciation and amortization	504	478
Interest expense—net	632	776
Total expenses	9,522	7,827
Income before the following	1,801	103
Provision for income taxes	884	51
Income before interest on income debentures and extraordinary items	917	52
Interest on income debentures:		
Interest on bank income debentures	180	—
Provision for interest on 1974 income debentures	465	30
	645	30
Income before extraordinary items	272	22
Extraordinary items:		
Capital gain arising from repurchase of 10% subordinated debentures, net of deferred income taxes of $120,000	379	—
Gain on repurchase of non-interest bearing subordinated notes, net of deferred income taxes of $70,000	76	—
Income tax recovery arising from utilization of prior period losses	954	51
Elimination of interest on 1974 income debentures as a result of anticipated losses that were realized in remainder of fiscal year	—	30
Provision for interest on 1974 income debentures relating to extraordinary items	(141)	—
	1,268	81
Net income for the period	$ 1,540	$ 103
Earnings per share:		
Basic—		
Income before extraordinary items	$ .41	$ .03
Extraordinary items	1.91	.12
Net income for the period	$ 2.32	$ .15
Fully diluted (note 1)—		
Income before extraordinary items	$ .33	
Extraordinary items	1.44	
Net income for the period	$ 1.77	

Note 1: Fully diluted earnings per share shows the effect on earnings per share which would result if the outstanding warrants to purchase 224,970 common shares at $7.00 each and the outstanding options to purchase 14,000 common shares at $7.00 each were all exercised at the beginning of the period. In the fully diluted earnings per share calculation, the assumption is made that the funds derived from exercising the warrants and options had been invested to produce an annual return of 10%, before applicable income taxes and interest on income debentures.

No fully diluted earnings per share calculation is provided for 1976 since the result of interest earned on funds invested at the above interest rate, on the exercise of warrants or options, would be anti-dilutive.